



Financial Section



One Biscayne Tower
Suite 2800
2 South Biscayne Boulevard
Miami, FL 33131

Telephone 305 358 2300
Fax 305 913 2692

Independent Auditors' Report

Honorable Alex Penelas, Mayor, and
Honorable Chairperson and Members
Board of County Commissioners
Miami-Dade County, Florida:

We have audited the accompanying balance sheets of the Miami-Dade Water and Sewer Department (the Department) as of September 30, 2001 and 2000 and the related statements of revenue, expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the accompanying financial statements present only the financial position of the Department and are not intended to present fairly the financial position of Miami-Dade County, Florida, and the results of its operations and the cash flows of its proprietary fund types, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department, as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, the Department has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2002 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the financial statements of the Department taken as a whole. The accompanying supplementary financial data listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Department. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report, and accordingly, express no opinion thereon.

KPMG LLP

January 18, 2002



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.

Comparative Balance Sheets

	September 30,	<u>2001</u>	<u>2000</u>
			(In thousands)
ASSETS			
<i>CURRENT ASSETS:</i>			
Cash and cash equivalents		\$ 33,461	\$ 29,599
Investments		117,908	112,123
Accounts receivable (net of allowance for uncollectible accounts of \$20.6 million in 2001 and 2000)		72,643	74,522
Inventory of materials and supplies		<u>19,131</u>	<u>20,409</u>
Total current assets		<u>243,143</u>	<u>236,653</u>
<i>RESTRICTED ASSETS:</i>			
Cash and cash equivalents		95,212	28,539
Investments		802,211	892,448
Contracts receivable		<u>947</u>	<u>875</u>
Total restricted assets		<u>898,370</u>	<u>921,862</u>
<i>DEFERRED CHARGES:</i>			
Deferred debt issue costs, net		17,461	17,710
Other deferred charges, net		<u>2,441</u>	<u>763</u>
Total deferred charges		<u>19,902</u>	<u>18,473</u>
<i>PROPERTY, PLANT AND EQUIPMENT:</i>			
Land		30,390	30,390
Structures and improvements		2,832,835	2,689,373
Equipment		<u>639,954</u>	<u>624,127</u>
Utility plant in service before depreciation		3,503,179	3,343,890
Less accumulated depreciation		<u>961,343</u>	<u>865,190</u>
Net utility plant in service		2,541,836	2,478,700
Construction work in progress		<u>348,670</u>	<u>338,861</u>
Net property, plant and equipment		<u>2,890,506</u>	<u>2,817,561</u>
Total assets		<u>\$ 4,051,921</u>	<u>\$ 3,994,549</u>

(Continued)

Comparative Balance Sheets

(Continued)	September 30,	<u>2001</u>	<u>2000</u>
			(In thousands)
LIABILITIES AND EQUITY			
<i>CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS):</i>			
Accounts payable and accrued expenses		\$ 36,613	\$ 37,060
Customer and developer deposits		17,856	17,878
Current portion of long-term debt		6,142	4,736
Accrued interest payable		1,072	1,069
Rebatable arbitrage earnings		4,903	4,692
Liability for compensated absences		19,270	18,005
Other liabilities		<u>569</u>	<u>805</u>
Total current liabilities (payable from current assets)		<u>86,425</u>	<u>84,245</u>
<i>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):</i>			
Accounts payable and accrued expenses		17,568	19,176
Retainage payable		8,166	5,811
Current portion of long-term debt		31,335	29,605
Accrued interest payable		45,027	45,524
Current portion of liability for self-insurance		<u>14,078</u>	<u>16,962</u>
Total current liabilities (payable from restricted assets)		<u>116,174</u>	<u>117,078</u>
<i>LONG-TERM LIABILITIES:</i>			
Revenue bonds payable, net		1,579,151	1,605,736
State loan obligations, net		124,444	113,195
Notes payable, net		942	1,118
Liability for self-insurance		<u>4,874</u>	<u>5,005</u>
Total long-term liabilities		<u>1,709,411</u>	<u>1,725,054</u>
Total liabilities		<u>1,912,010</u>	<u>1,926,377</u>
<i>EQUITY:</i>			
Contributions:			
Contributed capital		204,209	204,209
In aid of construction		<u>1,228,620</u>	<u>1,228,620</u>
Total contributions		1,432,829	1,432,829
Less accumulated depreciation		<u>504,853</u>	<u>469,721</u>
Net contributions		<u>927,976</u>	<u>963,108</u>
Retained earnings:			
Reserved for restricted assets		367,012	391,816
Unreserved		<u>844,923</u>	<u>713,248</u>
Total retained earnings		<u>1,211,935</u>	<u>1,105,064</u>
Total equity		<u>2,139,911</u>	<u>2,068,172</u>
Total liabilities and equity		<u>\$ 4,051,921</u>	<u>\$ 3,994,549</u>

The accompanying notes to financial statements are an integral part of these statements.

Comparative Statements of Revenues, Expenses and Changes in Retained Earnings

For the years ended September 30,	<u>2001</u>	<u>2000</u>
	(In thousands)	
<i>OPERATING REVENUES:</i>		
Water	\$ 154,309	\$ 166,846
Wastewater	<u>206,314</u>	<u>212,546</u>
Total operating revenues	<u>360,623</u>	<u>379,392</u>
 <i>OPERATING AND MAINTENANCE EXPENSES:</i>		
Water source of supply	4,771	5,015
Water power and pumping	1,558	1,532
Water purification	32,640	29,700
Water transmission and distribution	18,229	17,419
Wastewater collection system	12,935	11,075
Wastewater pumping	20,709	20,148
Wastewater treatment	40,707	39,469
Customer accounting	6,407	4,568
Customer service	14,790	13,051
General and administrative	<u>27,473</u>	<u>26,914</u>
Total operating and maintenance expenses	<u>180,219</u>	<u>168,891</u>
 Operating income before depreciation	180,404	210,501
 <i>DEPRECIATION</i>	<u>109,270</u>	<u>94,489</u>
 Operating income	71,134	116,012
 <i>NON-OPERATING REVENUES (EXPENSES):</i>		
Interest income	60,233	57,917
Interest expense	(82,289)	(82,310)
Amortization of debt issue costs	(876)	(841)
Operating grants	<u>1,511</u>	<u>1,120</u>
 Income before contributions and operating transfers	49,713	91,898
Capital contributions	47,574	-
Operating transfers	<u>(25,547)</u>	<u>(24,788)</u>
 Net income	71,740	67,110
 Depreciation on contributions	<u>35,131</u>	<u>29,949</u>
 Increase in retained earnings	106,871	97,059
 Retained earnings at beginning of year	<u>1,105,064</u>	<u>1,008,005</u>
 Retained earnings at end of year	<u>\$ 1,211,935</u>	<u>\$ 1,105,064</u>

The accompanying notes to financial statements are an integral part of these statements.

Comparative Statements of Cash Flows

For the years ended September 30,	<u>2001</u>	<u>2000</u>
	(In thousands)	
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Cash received from customers	\$ 364,943	\$ 379,117
Cash paid to suppliers for goods and services	(88,153)	(79,980)
Cash paid to employees for services	<u>(96,346)</u>	<u>(90,374)</u>
Net cash provided by operating activities	<u>180,444</u>	<u>208,763</u>
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</i>		
Operating grants received	358	513
Operating transfers to County's General Fund	<u>(25,547)</u>	<u>(24,788)</u>
Net cash used in non-capital financing activities	<u>(25,189)</u>	<u>(24,275)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>		
Proceeds from bond issues, loan agreements and notes	18,928	13,954
Principal payments - bonds, loans and notes	(34,148)	(32,996)
Interest paid	(87,273)	(90,491)
Proceeds from sale of property, plant and equipment	168	5,135
Acquisition and construction of capital assets	(159,850)	(104,610)
Contributions received	<u>32,561</u>	<u>27,218</u>
Net cash used in capital and related financing activities	<u>(229,614)</u>	<u>(181,790)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchase of investment securities	(1,283,720)	(1,219,439)
Proceeds from sale and maturity of investment securities	1,372,463	1,056,371
Interest on investments	<u>56,151</u>	<u>55,695</u>
Net cash provided by (used in) investing activities	<u>144,894</u>	<u>(107,373)</u>
Net increase (decrease) in cash and cash equivalents	70,535	(104,675)
Cash and cash equivalents at beginning of year	<u>58,138</u>	<u>162,813</u>
Cash and cash equivalents at end of year	<u>\$ 128,673</u>	<u>\$ 58,138</u>

(Continued)

Comparative Statements of Cash Flows

(Continued)	For the years ended September 30,	<u>2001</u>	<u>2000</u>
			(In thousands)
<i>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>			
Operating income		\$ 71,134	\$ 116,012
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		109,270	94,489
(Increase) decrease in assets:			
Accounts receivable		2,721	(4,195)
Inventory of materials and supplies		1,278	(1,200)
Other deferred charges		(1,678)	(349)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		(447)	4,259
Customer and developer deposits		149	614
Accrued interest payable		3	41
Liability for compensated absences		1,265	237
Other liabilities		(236)	(417)
Liability for self-insurance		<u>(3,015)</u>	<u>(728)</u>
Net cash provided by operating activities		<u>\$ 180,444</u>	<u>\$ 208,763</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of \$14.9 million and \$21.6 million in fiscal years 2001 and 2000, respectively.

The increases in the fair value of investments were \$4.8 million and \$531,569 in fiscal years 2001 and 2000, respectively.

The accompanying notes to financial statements are an integral part of these statements.

SEPTEMBER 30, 2001 AND 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In December 1972, the Board of County Commissioners (the Board) of Miami-Dade County, Florida (the County) created the Miami-Dade Water and Sewer Authority (the Authority) for the purpose of establishing an agency responsible for providing water and wastewater services throughout the County. In 1973, all properties of the water and wastewater systems of the City of Miami (the City) and of the County were put under the control of the Authority. The Board changed the status of the Authority to that of a County department effective November 1, 1983. Under the provisions of Miami-Dade County Ordinance 83-92, which directed the transition, the Authority was established as the "Miami-Dade Water and Sewer Authority Department" (the Department). On October 19, 1993, the Department changed its name to the Miami-Dade Water and Sewer Department.

BASIS OF ACCOUNTING AND REPORTING ENTITY

The Department functions as a self-supporting governmental enterprise fund of the County. An enterprise fund is used to account for the financing of services to the general public on a continuing basis with costs recovered primarily through user charges. Accordingly, its financial statements have been prepared on the accrual basis of accounting. The Department issues a comprehensive annual financial report which financial statements are combined in the County's comprehensive annual financial report.

The accompanying financial statements combine the accounts of both the Water and Wastewater Systems to provide meaningful information with respect to the Department, with all transactions of the Department accounted for as one enterprise fund. All significant inter-system accounts and transactions have been eliminated.

APPLICATION OF FASB STANDARDS

Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, offers the option of following all Financial Accounting Standards Board (FASB) standards issued after November 30, 1989, unless

the latter conflict with or contradict GASB pronouncements, or not following FASB standards issued after such date. The County elected the option not to follow FASB standards.

REVENUE RECOGNITION

All water and wastewater revenues are recognized when the related services are provided. Unbilled receivables have been estimated and accrued as revenue from the date of last reading of the meters based on the billing cycle. Unbilled accounts receivable were approximately \$23 million and \$24.7 million as of September 30, 2001 and 2000, respectively.

UTILITY PLANT IN SERVICE AND DEPRECIATION

Property acquired through purchase or internal construction is stated at cost. Property contributions received from municipalities are recorded in utility plant in service by the Department at the acquisition cost to the municipality. Property contributed in aid of construction is recorded at its estimated fair market value on the date received.

Annualized depreciation expense (including depreciation on contributed assets), expressed as a percent of depreciable utility plant in service, was 3.1% and 2.9% for each of the fiscal years ended September 30, 2001 and 2000, respectively. The Department utilizes the composite straight-line depreciation method with normal retirements charged to accumulated depreciation, and no gain or loss is recognized on such retirements. Assets with a change in estimated life are depreciated based on net book value over the remaining life of the asset. Estimated useful lives of utility plant in service are as follows:

	Water System	Wastewater System
	(Years)	
Structures and improvements	50	15-50
Equipment	3-30	3-20
Transmission mains and accessories	50-100	25-100

Depreciation related to contributed assets is included as part of depreciation expense. Contributions are reduced by the related depreciation of contributed assets received prior to October 1, 2000 resulting in a corresponding increase in unreserved retained earnings.

Notes to Financial Statements

During 2001, the Department changed the estimated useful service lives of certain equipment and transmission mains and accessories reflected in the preceding table. The changes are based on management's annual review of the estimated lives. The effect of this change in estimate is an increase in depreciation expense and a decrease in operating income in fiscal 2001 of \$8 million. Total depreciation expense for fiscal year 2001 was \$109 million.

INVESTMENTS

The Department has adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. As the statement permits, the Department has opted to report money market and non-participating investments, with remaining maturities of one year or less at the time of purchase, at amortized cost which approximates market.

The Local Government Surplus Funds Trust Fund Investment Pool (the Pool) is a "2a-7 like" pool, and the Pool account balance (amortized cost) can be used as fair value for financial reporting. The Pool is governed by Chapter 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration (SBA) for the administration of the Pool. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the SBA.

All other investments are carried at fair value. The net increase in the fair value of investments is included as part of interest income in the accompanying statements of revenues, expenses and changes in retained earnings.

STATEMENTS OF CASH FLOWS

For purposes of the statements of cash flows, the Department considers all highly liquid pooled investments with a maturity of three months or less when purchased to be cash equivalents.

INVENTORY

Materials and supplies inventories are stated at the lower of average cost or market.

INTEREST ON INDEBTEDNESS

Interest is charged to expense as incurred except for interest related to borrowings used for construction projects

which is capitalized, net of interest earned on construction funds borrowed. Interest incurred during the fiscal years ended September 30, 2001 and 2000 was \$89.5 million and \$92.2 million, respectively. Of these amounts, \$7.2 million and \$9.9 million were capitalized in fiscal years 2001 and 2000, respectively, net of interest earned on construction funds from tax-exempt borrowings of \$7.2 million and \$11.6 million in fiscal years 2001 and 2000, respectively.

The Department enters into interest rate swap agreements to modify interest rates on outstanding debt. The only related amounts recorded in the financial statements are the net interest expense along with amortization of fees paid or received resulting from these agreements.

BOND DISCOUNT AND ISSUANCE COSTS

Discounts on bonds and notes payable are amortized using the straight-line method over the life of the related bond issuances or term of the notes since the results are not significantly different from the interest method of amortization. Bond issuance costs are capitalized and amortized over the life of the bonds in a manner similar to discounts.

CAPITAL CONTRIBUTIONS

Effective October 1, 2000, the Department adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which requires recognition of external capital contributions to proprietary funds as revenues, not contributed capital. Therefore, external capital contributions are treated as an operating statement item.

GRANTS FROM GOVERNMENT AGENCIES

The Department records grants when entitlement to such funds has been established under the appropriate grant terms. This normally occurs as amounts are expended and become reimbursable from the granting agency.

PENSION PLAN

The Department contributes to the Florida Retirement System, a cost-sharing multi-employer plan. Contributions are expensed as incurred.

COMPENSATED ABSENCES

The Department accounts for compensated absences by accruing a liability for employees' compensation

Notes to Financial Statements

for future absences according to the guidelines of GASB Statement No. 16, *Accounting for Compensated Absences*.

BUDGET APPROVAL

The Board approves the Department's annual budget, through the enactment of Budget Ordinances, for current expenses and capital outlays, which are accounted for in a single enterprise fund. The budget is adopted on a basis consistent with generally accepted accounting principles and monitored at various levels of classification detail. However, expenditures at the fund level may not legally exceed budgeted appropriations, which lapse at year-end. Certain account groups have been established by bond ordinances and loan agreements to be used to report assets for specific uses and to account for proceeds and collateral pledged as a result of the issuance of the various forms of debt. Budget amendments at this account group level are reviewed by the Office of Management and Budget, approved by the County Manager and submitted to the Board. Amendments to the budget were not needed during fiscal year 2001.

COST ALLOCATION

Certain engineering overhead and other costs are generally allocated to capital projects and operating expenses using standard rates developed by independent consultants. The rate is based on various allocation bases which bear reasonable relation with the type of allocable expenditure.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the fiscal year 2000 financial statements have been reclassified to conform with the fiscal year 2001 presentation.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Department pools all cash, cash equivalents and investments, with the exception of certain amounts which are required to be held in trust and escrow accounts under the terms of bond ordinances and loan agreements. Various self-balancing account groups are participants in such pooling, sharing on a pro-rata basis in the pooled earnings, according to their respective average monthly balances.

DEPOSITS

The carrying amounts of the Department's local deposits were \$2.6 million and \$1.3 million as of September 30, 2001 and 2000, respectively. The bank balances at local depositories were \$8.8 million and \$10.4 million as of September 30, 2001 and 2000, respectively, consisting of demand deposit accounts only. All deposits are fully insured by Federal Depository Insurance and a multiple financial institution collateral pool required by Chapter 280 Florida Statutes, "Florida Security for Public Deposits Act". Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits, times the depository's collateral pledging level. The pledging level may range from 50% to 125% depending upon the depository's financial condition and establishment period. All collateral must be deposited with a State-approved financial institution. Any losses to public depositors are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessments against other qualified public depositories of the same type as the depository in default.

INVESTMENTS

Department investments are made by the County in accordance with the provisions of Chapter 125.31 Florida Statutes and County Ordinance 84-47, "Investment and Reinvestment of Surplus Funds". Authorized investments include obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements, certificates of deposit and the Local Government Surplus Funds Trust Fund Investment Pool. Investments can be grouped into

Notes to Financial Statements

three categories, based on who holds the securities, to give an indication of the level of risk assumed by the entity at year-end: (1) insured or registered, or securities held by the entity or its agent in the entity's name; (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name; or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name. Investments classified as U.S. Government and Agency Securities, Commercial Paper and Bankers' Acceptances were held by the Department's custodial bank in the Department's name, falling under the first risk category described above.

Guaranteed investment contracts (GIC's) are not subject to credit risk classification because they are direct contractual investments and are not securities. These GIC's provide for a guaranteed return on investments over a specified period of time. Also, the Local Government Surplus Funds Trust Fund Investment Pool is not subject to credit risk classification because it is a "2a-7 like" pool.

During the year, the Department also entered into overnight repurchase agreements, none of which were outstanding at September 30, 2001.

The Department's investments at September 30, 2001 and 2000, including cash equivalents in the amount of \$126 million and \$56.1 million, respectively, are shown below (in thousands).

	2001 Fair Value	2000 Fair Value
U.S. Government and Agency Securities	\$ 442,375	\$ 309,762
Commercial Paper	236,884	430,632
Bankers Acceptances	9,985	9,231
Guaranteed Investment Contracts	303,792	311,032
Local Government Surplus Funds Trust Fund Investment Pool	53,050	-
Total investments	<u>\$1,046,086</u>	<u>\$1,060,657</u>

3. LONG-TERM DEBT

Long-term debt includes various bonds, loans and notes payable which have been issued or approved by the County for the improvement of the Department's water and wastewater infrastructure, and defeasance of outstanding debt. General covenants, along with debt service requirements, are disclosed below. See Note 4, Restricted Assets, for a discussion of the accounts used in accounting for proceeds and collateral pledged as a result of the issuance of the various forms of debt.

The Department's debt instruments contain various covenants and restrictions, which among other things, (1) prohibit the Department from taking any action that could jeopardize its tax-exempt status, and (2) require the Department to meet certain financial tests. At September 30, 2001, the Department was in compliance with all such covenants and restrictions.

DADE COUNTY REVENUE REFUNDING BONDS, SERIES 1993
On December 23, 1993, \$409.4 million of Dade County Water and Sewer System Revenue Refunding Bonds, Series 1993 were issued to pay issuance costs and to refund or advance refund various obligations.

The Series 1993 Refunding Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2013, with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2001.

DADE COUNTY REVENUE BONDS, SERIES 1994
On February 4, 1994, \$431.7 million of Dade County Water and Sewer System Revenue Bonds, Series 1994, with variable interest rates, were issued to finance capital improvements to the water and wastewater systems.

The Series 1994 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on the first Wednesday of October through the year 2022, with semi-annual interest due on the first Wednesday of April and October of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2001.

Notes to Financial Statements

LONG-TERM DEBT SUMMARY

A summary of the Department's outstanding debt for the fiscal years ended September 30, 2001 and 2000 is presented in the following table (dollars in thousands):

Description	Date of Issue	Outstanding Rate	Amount Issued	Final Maturity Date	Outstanding Sept. 30, 2001	Outstanding Sept. 30, 2000
<i>Dade County Revenue Bonds</i>						
Series 1993 (Refunding Bonds)	1993	4.40%-5.00%	\$409,415	2013	\$ 314,905	\$ 332,475
Series 1994 Water and Sewer System	1994	Variable*	431,700	2022	420,630	421,255
Series 1995 Water and Sewer System	1995	4.10%-6.25%	346,820	2025	338,460	341,360
Series 1997 Water and Sewer System	1997	4.50%-6.25%	437,195	2026	425,150	431,320
Series 1999A Water and Sewer System	1999	5.00%	150,000	2029	150,000	150,000
Less: Current Portion					(28,615)	(27,265)
Unamortized Discount and Deferred Amounts					<u>(41,379)</u>	<u>(43,409)</u>
					<u>1,579,151</u>	<u>1,605,736</u>
<i>State Loan Obligations</i>						
State Revolving Fund	Various	2.56%-4.17%	169,206	2016	133,130	120,105
Less: Current Portion					<u>(8,686)</u>	<u>(6,910)</u>
					<u>124,444</u>	<u>113,195</u>
<i>Notes Payable</i>						
City of North Miami	1979	6.00%		2007	1,118	1,284
Less: Current Portion					<u>(176)</u>	<u>(166)</u>
					<u>942</u>	<u>1,118</u>
Total Long-Term Debt, Net					<u>\$1,704,537</u>	<u>\$1,720,049</u>

* Variable rates range from 1.85%-4.50% and 2.85%-5.75% in fiscal years 2001 and 2000, respectively.

DEBT SERVICE REQUIREMENTS

The Department's debt service requirements to maturity, including current portion, at September 30, 2001 are as follows (in thousands):

Maturing in Fiscal Year	Revenue Bonds		State Loans		Notes Payable		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Debt
2002	\$ 28,615	87,531	8,686	3,731	176	62	37,477	91,324	128,801
2003	29,920	86,232	9,940	4,286	187	51	40,047	90,569	130,616
2004	31,275	84,940	10,295	3,641	199	40	41,769	88,621	130,390
2005	32,720	83,411	9,984	3,343	211	28	42,915	86,782	129,697
2006	34,270	81,796	9,710	2,990	224	15	44,204	84,801	129,005
2007-2011	200,415	379,829	50,908	10,092	121	2	251,444	389,923	641,367
2012-2016	258,705	321,215	32,203	2,388	-	-	290,908	323,603	614,511
2017-2021	337,810	241,661	1,404	20	-	-	339,214	241,681	580,895
2022-2026	442,035	136,850	-	-	-	-	442,035	136,850	578,885
2027-2030	253,380	25,458	-	-	-	-	253,380	25,458	278,838
	1,649,145	1,528,923	133,130	30,491	1,118	198	1,783,393	1,559,612	3,343,005
Unamortized Discount & Deferred Amounts	(41,379)	-	-	-	-	-	(41,379)	-	(41,379)
Total	\$ 1,607,766	1,528,923	133,130	30,491	1,118	198	1,742,014	1,559,612	3,301,626

Notes to Financial Statements

DADE COUNTY REVENUE BONDS, SERIES 1995

On October 19, 1995, \$346.8 million of Dade County Water and Sewer System Revenue Bonds, Series 1995 were issued to finance capital improvements to the water and wastewater systems.

The Series 1995 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2025 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2001.

DADE COUNTY REVENUE BONDS, SERIES 1997

On January 30, 1997, \$437.2 million of Dade County Water and Sewer System Revenue Bonds, Series 1997 were issued to finance capital improvements to the water and wastewater systems.

The Series 1997 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2026 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2001.

MIAMI-DADE COUNTY REVENUE BONDS, SERIES 1999A

On May 5, 1999, \$150 million of Dade County Water and Sewer System Revenue Bonds, Series 1999A were issued to finance capital improvements to the water and wastewater systems.

The Series 1999A Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2029 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2001.

STATE REVOLVING FUND

Under the State Revolving Fund program, the Department has received various loan commitments for the construction of water and wastewater treatment facilities. Draws to date against committed loans as of September 30, 2001

and repayment amounts as required by the loan agreements are detailed in the following table (in thousands):

Loan #	Commitment	Draws to date	Annual payments
375310	\$ 45,906	\$ 45,906	\$ 3,275
377400	36,402	36,402	2,523
377450	27,831	27,831	1,858
377470	11,959	11,959	791
377490	3,098	3,098	200
377500	28,523	22,957	1,698
377650	13,234	2,604	937
377670	10,251	2,955	738
377860	6,200	409	450
300010	20,268	11,639	1,459
300080	5,498	3,446	397
	<u>\$209,170</u>	<u>\$169,206</u>	<u>\$14,326</u>

The Florida Department of Environmental Protection approved final amendments for loans #375310 and #377400 on June 7, 1999, for loan #377470 on August 21, 2000, for loan #377450 on May 18, 2001 and for loan #377490 on May 2, 2001. These loans are shown above but have been closed-out. Therefore, no further draws will be made against these specific loans, only payments.

The Department has agreed to maintain rates, together with other pledged revenues, sufficient to provide "net revenues" equal to at least 1.15 times the annual loan payments after meeting the primary debt service requirements. Reserve and debt service funding requirements, as required by the agreement, were met in fiscal year 2001.

NOTES PAYABLE

Outstanding notes payable represents a note issued in 1979 in connection with the acquisition of the North Miami sanitary sewage ocean outfall line. Such note is subordinate debt maturing in 2007.

INTEREST RATE SWAP AGREEMENTS

The Department is currently a party to two interest rate swap agreements relating to the Series 1993 Revenue Refunding Bonds and one swap relating to the Series 1994 Revenue Bonds.

The first swap agreement relating to the Series 1993 Bonds became effective on August 26, 1998, and

Notes to Financial Statements

provided for the Department to receive payments at a fixed rate of 4.85% and to make payments at a variable rate based on the BMA index. It included an option, exercisable by the counterparty, for the Department to receive payments at a variable rate based on the BMA index and to make payments at a fixed rate of 4.40%. This agreement was amended on February 26, 2001 to provide for: the extension of the termination date to June 15, 2020; an option in favor of the counterparty to terminate the agreement on June 15, 2008; an increased fixed rate of 4.902%; an additional fixed rate of 0.323% which survives the termination option; a notional amount declining from \$215 million as of September 19, 2001, to \$154 million as of September 19, 2019, in accordance with the schedule included in the amendment. On September 20, 2001, the counterparty exercised the option to receive payment from the Department at the fixed rate and to make payments on the basis of the variable rate.

For the second swap agreement relating to the Series 1993 Bonds, the Department pays the counterparty on the basis of the BMA index divided by 0.604 on an initial notional amount of \$114.5 million. The counterparty pays the Department LIBOR plus a constant of 1.28% on the same notional amount. The notional amount will be reduced on each October 1, commencing October 1, 2010 as set forth in a pre-determined reduction schedule.

A swap agreement relating to the Series 1993 Bonds, with a notional amount of \$40 million, was terminated in October 1999, at the option of the counterparty.

For the swap agreement relating to the Series 1994 Bonds, calculations are based on a notional amount that is specified in the Calculation Amount schedule incorporated in the bond documents. This notional amount, which changes periodically, is set at \$420.6 million for the current fiscal year. The Department owes interest calculated at a 5.28% annual rate to the counterparty, and in return the counterparty owes the Department interest at a variable rate that matches the variable rate payable on the bonds.

On September 23, 1997, a settlement was reached between Smith Barney and the Securities and Exchange

Commission regarding the interest rate swap transaction entered into in connection with the Series 1994 bonds. The settlement provided for a payment to the County in the amount of \$2 million and the foregoing of future remarketing fees related to the swap in the amount of \$3.1 million.

The Department continues to pay interest to the bondholders at the rates provided by each bond issue. However, during the term and for the notional amount of each interest rate swap agreement, the Department will effectively pay the rate established under the agreements. The debt service requirements to maturity presented in this note are shown net of these agreements.

If the counterparties to the swaps default, or if the swaps are terminated, the Department will be exposed to the rates established in each bond issue. A termination of any swap agreement may result in the Department making or receiving a termination payment. The counterparties to the interest rate swap agreements are large international brokerage and insurance firms and, accordingly, the Department believes there is little risk of counterparty nonperformance.

DEFEASED DEBT

In the fiscal year ended September 30, 1994, the Department defeased the bonds listed in the table below (in thousands). The proceeds of the new bond issue, Dade County Water and Sewer System Revenue Bonds, Series 1993, were invested in direct obligations of the U.S. Government and placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded obligations. Accordingly, these refunded obligations are considered to be defeased and the assets held in trust have not been included in the accompanying financial statements.

	Date of Defeasance	Final Maturity Date	Principal Amount Defeased	Principal Balance Sept. 30, 2001
Dade County Water System Revenue Refunding Bonds, Series 1992	12/23/93	06/01/04	\$ 36,245	\$ 12,835
State Bond Loan, Srs. X	12/23/93	07/01/12	<u>43,700</u>	<u>Redeemed</u>
Total			<u>\$ 79,945</u>	<u>\$ 12,835</u>

4. RESTRICTED ASSETS

Certain bond ordinances and loan agreements require the Department to establish accounts to be used in accounting for proceeds and collateral pledged as a result of the various issues of debt. In many cases, the applicable ordinances refer to the restricted accounts as “funds”. Such accounts are not “funds” as defined by *NCGA Statement No. 1: Governmental Accounting and Financial Reporting Principles* and, therefore, are not funds for financial reporting purposes, but are maintained as separate accounts. Restricted assets also include assets restricted for specific purposes within the Department.

Restricted assets and related reserves at September 30, 2001 and 2000 are presented in the following table (in thousands):

	<u>2001</u>	<u>2000</u>
Restricted Assets		
Debt Service	\$210,118	\$208,185
Construction	417,936	425,371
Renewal and Replacement	69,599	106,323
Plant Expansion	67,668	61,785
Self-Insurance	19,494	22,643
Rate Stabilization	113,555	97,555
Total Assets	<u>\$898,370</u>	<u>\$921,862</u>
Retained Earnings Reserved for Restricted Assets		
Debt Service	\$130,747	\$133,192
Renewal and Replacement	58,485	100,077
Plant Expansion	64,225	60,992
Rate Stabilization	113,555	97,555
Total Reserves	<u>\$367,012</u>	<u>\$391,816</u>

5. PENSION PLAN

The Department, as an agency of the County, participates in the Florida Retirement System (the FRS), a cost-sharing multi-employer public employment retirement system, which covers substantially all of the Department's full-time and part-time employees.

The FRS was created in 1970 by consolidating several employee retirement systems. The FRS is non-contributory and is administered by the State of Florida. All eligible employees as defined by the State of Florida who were hired after 1970, and those employed prior to 1970 who elected to be enrolled, are covered by the FRS.

Benefits under the plan vest after ten years of service. Employees who retire at or after age 62, with ten years of credited service, are entitled to an annual retirement benefit, payable monthly for life. The FRS also provides for early retirement at reduced benefits and death and disability benefits. These benefit provisions and all other requirements are established by State of Florida statutes.

The covered payroll for Department employees in the FRS for the years ended September 30, 2001 and 2000 was \$95.9 million and \$89 million, respectively, while the Department's total payroll was \$101.9 million and \$93.9 million for fiscal 2001 and 2000, respectively.

Pension costs of the Department as required and defined by State statute ranged between 7.3% and 18.4% of gross salaries during fiscal 2001 and between 9.2% and 20.3% of gross salaries during fiscal 2000. For the years ended September 30, 2001, 2000, and 1999, the Department's actual contributions met all required contributions. These contributions aggregated \$8.4 million, \$9 million and \$12.8 million, respectively, which represented 8.7%, 10.1% and 14.5% of covered payroll, respectively, and 0.5%, 0.4% and 0.4% of the total contributions required of all participating agencies, respectively, for fiscal years 2001, 2000 and 1999.

Ten-year historical trend information is presented in the FRS' June 30, 2001 annual report. This information is useful in assessing the FRS' accumulation of sufficient assets to pay pension benefits as they become due. A copy of the FRS' annual report can be obtained by writing to the Department of Management Services, Division of Retirement, 2639 North Monroe Street, Building C, Tallahassee, FL 32399-1560 or by calling (850) 488-5706.

6. RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; job-related injuries or illnesses to employees; natural disasters and employee health and accident. During the year ended September 30, 1987, the Department established a self-insurance program for general and automobile liability exposures,

Notes to Financial Statements

as provided by Section 706 of County Ordinance 78-82, as amended.

Claims are administered by the County's Risk Management Division, and the program is based upon an actuarial study performed annually by consulting actuaries. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities also include an amount for claims that have been incurred but not reported (IBNR). Because actual claims liabilities depend on such complex factors as inflation, change in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

Changes in the balance of claim liabilities during fiscal 2001 and 2000 were as follows (in thousands):

	<u>2001</u>	<u>2000</u>
Balance at beginning of year	\$15,560	\$16,639
Claims and changes in estimates	(1,969)	415
Less: Payments	<u>(848)</u>	<u>(1,494)</u>
Balance at end of year	<u>\$12,743</u>	<u>\$15,560</u>

The Department participates in the workers' compensation self-insurance program of the County, administered by the Risk Management Division. Risk Management charges a "premium" to each County department based on amounts necessary to provide funding for expected payments during the fiscal year. The estimate of IBNR losses is performed by an independent actuary, and the liability is recorded in the Fiduciary Fund Type and General Long-Term Obligations Account Group of the County. The Department maintains a liability in the amount of \$6.2 million and \$6.4 million as of September 30, 2001 and 2000, respectively, for possible funding of these IBNR losses. The County maintains no excess coverage with independent carriers for workers' compensation.

The Department also participates in the County's group health and life self-insurance program, administered by an independent administrator. The County charges a uniform "premium" per employee to each County department based on recent trends in actual claims experience

and makes provisions for catastrophic losses. Current year premiums are adjusted for County-wide prior year actual claims experience.

The Department continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7. CONTRIBUTIONS

A schedule of changes in contributions during fiscal years 2001 and 2000 is presented below (in thousands):

	<u>2001</u>	<u>2000</u>
Contributed Facilities		
Developers	\$ 14,737	\$ 21,038
Customers	5,334	3,798
Fire Hydrants	548	698
Connection charges	26,466	24,602
Hurricane Andrew - related contributions	-	(894)
Other	<u>489</u>	<u>-</u>
Total additions	\$ 47,574	\$ 49,242

8. RELATED PARTY TRANSACTIONS

The Department provides water and wastewater services to other County departments as part of the normal course of business, based on regular retail rates. The Department also provides billing services to other County departments. The County provides various services to the Department which are charged using direct and indirect cost allocation methods. The Department reimburses the County (General Fund) for certain administrative services. The following table presents a list of providers of services and respective charges for the years ended September 30, 2001 and 2000 (in thousands):

	<u>2001</u>	<u>2000</u>
General Fund	\$10,588	\$10,517
General Services Administration	10,489	8,654
Information Technology	8,473	4,446
Public Works	2,901	91
Solid Waste	1,417	1,339
Other County Departments	3,569	1,865

In relation to the above payments, the Department had related payables of \$7.1 million and \$6.8 million at

Notes to Financial Statements

September 30, 2001 and 2000, respectively. The Department also had receivables from other County departments amounting to \$4.5 million and \$2.1 million at September 30, 2001 and 2000, respectively. The Department has every intention of paying the outstanding payables on a timely basis, and is confident it will collect the outstanding receivables.

In addition, the Department transferred \$25.5 million and \$24.8 million to the General Fund in fiscal years 2001 and 2000, respectively. The transfers to the General Fund have been classified as operating transfers.

The Department has also entered into other transactions with various County entities. These transactions arise from the normal course of business and in connection with the management of ongoing projects.

9. COMMITMENTS AND CONTINGENCIES

CONSTRUCTION

The Department had contractual commitments of \$80.7 million for plant and infrastructure construction at September 30, 2001.

LEGAL CONTINGENCIES

Church & Tower is a contractor which performed paving work for the Department under Contract # W-755 ("W-755"). The Department incurred expenses in the amount of \$19 million in fiscal year 1997 and \$18.2 million in fiscal year 1996 under W-755. The County and State Attorney's Office are conducting investigations of all payments and outstanding invoices under W-755 due to discrepancies already detected. These investigations are ongoing and the ultimate outcome of such investigations is uncertain at this time.

On November 24, 1997, Church & Tower sued the County for breach of contract under the Miscellaneous Pump Station Improvement contract as a result of the delay of payments on outstanding invoices as well as the County's suspension of work. The County subsequently filed a counterclaim against Church & Tower alleging breach of contract.

As a result of the litigation, the County investigated Church and Tower, as well as other contractors assigned

work under the Miscellaneous Pump Station Improvement Program. Deficiencies were found and subsequently the County has negotiated settlement with three contractors wherein the contractors, including Church and Tower, have agreed to investigate, evaluate and/or repair all deficient work performed by their forces or under their supervision. Further investigations continue on the remaining contractors. The County intends to vigorously pursue all contractors for proper remedies.

The County is a defendant in various actions brought by parties in the normal course of business of the Department. Based on consultation with the County Attorneys' Office, it is the opinion of management that the ultimate resolution of these suits would not materially affect the financial position of the Department or its ability to conduct its business.

FEDERAL GRANTS

Federal grant awards are audited under the provisions of the Single Audit Act and Office of Management and Budget Circular A-133 to determine that the Department has complied with the terms and conditions of the grant awards. Federal grants received are also subject to audit by the federal grantor agency. It is management's opinion that no material liabilities will result from any such audits.

REBATABLE ARBITRAGE EARNINGS

Federal tax law requires that arbitrage interest earnings be remitted to the federal government, unless the local government qualifies for an exemption. As of September 30, 2001 and 2000, the Department has recorded obligations to rebate approximately \$4.9 million and \$4.7 million, respectively, of interest earned on bond proceeds invested in taxable securities in excess of interest costs. These arbitrage rebates are payable five years from the date of the bond issuance and each five years thereafter. The ultimate amount of the obligation, if any, will be determined based on actual interest earned.

SETTLEMENT AGREEMENTS

In 1993, the County entered into a settlement agreement with the Florida Department of Environmental Protection (FDEP) resulting in very limited restrictions on new

sewer construction in certain areas of the County until adequate capacity becomes available in the wastewater system. Subsequently, in 1994 and 1995, two consent decrees were entered into with the U.S. Environmental Protection Agency (EPA) whereby the Department accelerated its improvement program of the wastewater system, subject to a schedule of stipulated penalties if certain established completion dates are not met.

In December 1997, an Administrative Order on Consent (AOC) with the EPA became effective which addresses alleged violations of federal and state law regarding underground treated sewage injection wells and effluent discharges at a Department wastewater treatment plant. As required by the AOC, the Department is conducting hydrogeological studies to determine the nature of the concerns and take appropriate action, if necessary. A Consent Order with FDEP, which is intended to operate in conjunction with the AOC, was executed by the parties and became effective on March 1, 1999. This Consent Order serves as a mechanism by which the Department can obtain the permits needed to perform any work required by the AOC.

10. SUBSEQUENT EVENTS

In September 2001, the Board of County Commissioners approved new miscellaneous fees and charges, as well as a 10% rate reduction for the average 7,500 gallons per month retail water and sewer customer, as part of the County Budget Ordinance for fiscal year 2002. No rate change for the wholesale customers was proposed or approved.

The Board also approved consideration of an Energy Cost Adjustment pass through for changes in electric and natural gas rates. A final decision by the Board regarding implementation will be made in the spring of 2002.

Supplementary Financial Data

Bond Ordinance 93-134 requires the Department to establish certain restricted accounts to be used in accounting for proceeds and collateral pledged as a result of the debt. In many cases, the bond ordinance refers to the restricted accounts as “funds”. Such accounts are not “funds” as defined by *NCGA Statement 1: Governmental Accounting and Financial Reporting Principles* and, therefore, are not funds for financial reporting purposes.

Similarly, the Water and Wastewater Systems do not meet the above referenced definition and, therefore, combining statements are not presented. The following system financial statements are furnished solely as supplementary information and are not required by generally accepted accounting principles.

Water System

Comparative Balance Sheets

	September 30,	<u>2001</u>	<u>2000</u>
			(In thousands)
ASSETS			
<i>CURRENT ASSETS:</i>			
Cash and cash equivalents	\$	30,012	\$ 19,753
Investments		85,310	86,693
Accounts receivable (net of allowance for uncollectible accounts of \$9.8 million in 2001 and \$9.7 million in 2000)		25,371	28,155
Inventory of materials and supplies		<u>11,563</u>	<u>12,584</u>
Total current assets		<u>152,256</u>	<u>147,185</u>
<i>RESTRICTED ASSETS:</i>			
Cash and cash equivalents		45,043	15,299
Investments		380,856	418,430
Contracts receivable		<u>577</u>	<u>598</u>
Total restricted assets		<u>426,476</u>	<u>434,327</u>
<i>DEFERRED CHARGES:</i>			
Deferred debt issue costs, net		5,186	5,495
Other deferred charges, net		<u>2,441</u>	<u>763</u>
Total deferred charges		<u>7,627</u>	<u>6,258</u>
<i>PROPERTY, PLANT AND EQUIPMENT:</i>			
Land		10,715	10,715
Structures and improvements		1,042,025	1,006,454
Equipment		<u>206,949</u>	<u>202,559</u>
Utility plant in service before depreciation		1,259,689	1,219,728
Less accumulated depreciation		<u>259,240</u>	<u>233,989</u>
Net utility plant in service		1,000,449	985,739
Construction work in progress		<u>109,123</u>	<u>76,087</u>
Net property, plant and equipment		<u>1,109,572</u>	<u>1,061,826</u>
Total assets		<u>\$ 1,695,931</u>	<u>\$ 1,649,596</u>

(Continued)

Water System

Comparative Balance Sheets

(Continued)	September 30,	<u>2001</u>	<u>2000</u>
			(In thousands)
LIABILITIES AND EQUITY			
<i>CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS):</i>			
Accounts payable and accrued expenses	\$	14,841	\$ 15,667
Customer and developer deposits		11,326	11,340
Current portion of long-term debt		230	-
Accrued interest payable		622	624
Rebatable arbitrage earnings		1,655	1,346
Liability for compensated absences		6,859	6,425
Other liabilities		569	805
Total current liabilities (payable from current assets)		<u>36,102</u>	<u>36,207</u>
<i>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):</i>			
Accounts payable and accrued expenses		9,049	7,215
Retainage payable		3,212	1,367
Current portion of long-term debt		14,157	13,419
Accrued interest payable		12,567	12,786
Current portion of liability for self-insurance		14,078	16,962
Total current liabilities (payable from restricted assets)		<u>53,063</u>	<u>51,749</u>
<i>LONG-TERM LIABILITIES:</i>			
Revenue bonds payable, net		452,242	465,510
State loan obligations, net		15,179	4,755
Liability for self-insurance		4,874	5,005
Total long-term liabilities		<u>472,295</u>	<u>475,270</u>
Total liabilities		<u>561,460</u>	<u>563,226</u>
<i>EQUITY:</i>			
Contributions:			
Contributed capital		14,851	14,851
In aid of construction		404,856	404,856
Total contributions		419,707	419,707
Less accumulated depreciation		66,576	57,242
Net contributions		<u>353,131</u>	<u>362,465</u>
Retained earnings:			
Reserved for restricted assets		195,798	209,625
Unreserved		585,542	514,280
Total retained earnings		<u>781,340</u>	<u>723,905</u>
Total equity		<u>1,134,471</u>	<u>1,086,370</u>
Total liabilities and equity		<u>\$ 1,695,931</u>	<u>\$ 1,649,596</u>

Water System

Comparative Statements of Revenues, Expenses and Changes in Retained Earnings

	For the years ended September 30,	2001	2000
			(In thousands)
<i>OPERATING REVENUES:</i>			
Retail	\$	124,473	\$ 133,766
Wholesale		20,311	23,012
Other revenues		9,525	10,068
Total operating revenues		154,309	166,846
<i>OPERATING AND MAINTENANCE EXPENSES:</i>			
Source of supply		4,771	5,015
Power and pumping		1,558	1,532
Purification		32,640	29,700
Transmission and distribution		18,229	17,419
Customer accounting		4,001	2,585
Customer service		8,430	7,439
General and administrative		9,430	10,227
Total operating and maintenance expenses		79,059	73,917
Operating income before depreciation		75,250	92,929
<i>DEPRECIATION</i>		30,916	21,851
Operating income		44,334	71,078
<i>NON-OPERATING REVENUES (EXPENSES):</i>			
Interest income		32,560	28,965
Interest expense		(20,932)	(22,578)
Amortization of debt issue costs		(308)	(291)
Operating grants		916	710
Income before contributions and operating transfers		56,570	77,884
Capital contributions		15,199	-
Operating transfers		(8,235)	(9,419)
Net income		63,534	68,465
Depreciation on contributions		9,333	4,529
Increase in retained earnings		72,867	72,994
Retained earnings at beginning of year		723,905	644,777
Transfer (from) to reserves		(15,432)	6,134
Retained earnings at end of year	\$	781,340	\$ 723,905

Water System

Comparative Statements of Cash Flows

For the years ended September 30,	<u>2001</u>	<u>2000</u>
	(In thousands)	
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Cash received from customers	\$ 159,385	\$ 169,372
Cash paid to suppliers for goods and services	(44,959)	(36,977)
Cash paid to employees for services	(40,150)	(39,276)
Transfer (from) to reserves	<u>(15,432)</u>	<u>6,134</u>
Net cash provided by operating activities	<u>58,844</u>	<u>99,253</u>
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</i>		
Operating grants received	358	470
Operating transfers to County's General Fund	<u>(8,235)</u>	<u>(9,419)</u>
Net cash used in non-capital financing activities	<u>(7,877)</u>	<u>(8,949)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>		
Proceeds from bond issues, loan agreements and notes	10,596	2,649
Principal payments - bonds, loans and notes	(13,419)	(12,807)
Interest paid	(21,988)	(23,860)
Proceeds from sale of property, plant and equipment	84	3,922
Acquisition and construction of capital assets	(65,430)	(24,848)
Contributions received	<u>7,369</u>	<u>6,475</u>
Net cash used in capital and related financing activities	<u>(82,788)</u>	<u>(48,469)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchase of investment securities	(458,647)	(592,752)
Proceeds from sale and maturity of investment securities	500,196	454,262
Interest on investments	<u>30,275</u>	<u>27,466</u>
Net cash provided by (used in) investing activities	<u>71,824</u>	<u>(111,024)</u>
Net increase (decrease) in cash and cash equivalents	40,003	(69,189)
Cash and cash equivalents at beginning of year	<u>35,052</u>	<u>104,241</u>
Cash and cash equivalents at end of year	<u>\$ 75,055</u>	<u>\$ 35,052</u>

(Continued)

Water System

Comparative Statements of Cash Flows

(Continued)	For the years ended September 30,	<u>2001</u>	<u>2000</u>
			(In thousands)
<i>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>			
Operating income	\$	44,334	\$ 71,078
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		30,916	21,851
Transfer (from) to reserves		(15,432)	6,134
(Increase) decrease in assets:			
Accounts receivable		3,171	(1,984)
Inventory of materials and supplies		1,021	(1,015)
Other current assets		-	1
Other deferred charges		(1,678)	(349)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		(826)	3,346
Customer and developer deposits		157	334
Accrued interest payable		(2)	18
Liability for compensated absences		434	90
Other liabilities		(236)	477
Liability for self-insurance		(3,015)	(728)
Net cash provided by operating activities	\$	58,844	\$ 99,253

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of \$7.8 million and \$10 million in fiscal years 2001 and 2000, respectively.

The increases in the fair value of investments were \$2.4 million and \$262,416 in fiscal years 2001 and 2000, respectively.

Water System

Schedule of Operating and Maintenance Expenses

Budget and Actual

For the year ended September 30, 2001

(In thousands)

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
Source of supply	\$ 6,109	\$ 4,771	\$ 1,338
Power and pumping	2,030	1,558	472
Purification	32,439	32,640	(201)
Transmission and distribution	22,583	18,229	4,354
Customer accounting	5,021	4,001	1,020
Customer service	9,203	8,430	773
General and administrative	<u>13,595</u>	<u>9,430</u>	<u>4,165</u>
Totals	<u>\$ 90,980</u>	<u>\$ 79,059</u>	<u>\$ 11,921</u>

Wastewater System

Comparative Balance Sheets

	September 30,	<u>2001</u>	<u>2000</u>
			(In thousands)
ASSETS			
<i>CURRENT ASSETS:</i>			
Cash and cash equivalents		\$ 3,449	\$ 9,846
Investments		32,598	25,430
Accounts receivable			
(net of allowance for uncollectible accounts of			
\$10.8 million in 2001 and \$10.9 million in 2000)		47,272	46,367
Inventory of materials and supplies		<u>7,568</u>	<u>7,825</u>
Total current assets		<u>90,887</u>	<u>89,468</u>
 <i>RESTRICTED ASSETS:</i>			
Cash and cash equivalents		50,169	13,240
Investments		421,355	474,018
Contracts receivable		<u>370</u>	<u>277</u>
Total restricted assets		<u>471,894</u>	<u>487,535</u>
 <i>DEFERRED CHARGES:</i>			
Deferred debt issue costs, net		<u>12,275</u>	<u>12,215</u>
 <i>PROPERTY, PLANT AND EQUIPMENT:</i>			
Land		19,675	19,675
Structures and improvements		1,790,810	1,682,919
Equipment		<u>433,005</u>	<u>421,568</u>
Utility plant in service before depreciation		2,243,490	2,124,162
Less accumulated depreciation		<u>702,103</u>	<u>631,201</u>
Net utility plant in service		1,541,387	1,492,961
Construction work in progress		<u>239,547</u>	<u>262,774</u>
Net property, plant and equipment		<u>1,780,934</u>	<u>1,755,735</u>
 Total assets		<u>\$ 2,355,990</u>	<u>\$ 2,344,953</u>

(Continued)

Wastewater System

Comparative Balance Sheets

(Continued)	September 30,	<u>2001</u>	<u>2000</u>
			(In thousands)
LIABILITIES AND EQUITY			
<i>CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS):</i>			
Accounts payable and accrued expenses	\$	21,772	\$ 21,393
Customer and developer deposits		6,530	6,538
Current portion of long-term debt		5,912	4,736
Accrued interest payable		450	445
Rebatable arbitrage earnings		3,248	3,346
Liability for compensated absences		<u>12,411</u>	<u>11,580</u>
Total current liabilities (payable from current assets)		<u>50,323</u>	<u>48,038</u>
<i>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):</i>			
Accounts payable and accrued expenses		8,519	11,961
Retainage payable		4,954	4,444
Current portion of long-term debt		17,178	16,186
Accrued interest payable		<u>32,460</u>	<u>32,738</u>
Total current liabilities (payable from restricted assets)		<u>63,111</u>	<u>65,329</u>
<i>LONG-TERM LIABILITIES:</i>			
Revenue bonds payable, net		1,126,909	1,140,226
State loan obligations, net		109,265	108,440
Notes payable, net		<u>942</u>	<u>1,118</u>
Total long-term liabilities		<u>1,237,116</u>	<u>1,249,784</u>
Total liabilities		<u>1,350,550</u>	<u>1,363,151</u>
<i>EQUITY:</i>			
Contributions:			
Contributed capital		189,358	189,358
In aid of construction		<u>823,764</u>	<u>823,764</u>
Total contributions		1,013,122	1,013,122
Less accumulated depreciation		<u>438,277</u>	<u>412,479</u>
Net contributions		<u>574,845</u>	<u>600,643</u>
Retained earnings:			
Reserved for restricted assets		171,214	182,191
Unreserved		<u>259,381</u>	<u>198,968</u>
Total retained earnings		<u>430,595</u>	<u>381,159</u>
Total equity		<u>1,005,440</u>	<u>981,802</u>
Total liabilities and equity	\$	2,355,990	\$ 2,344,953

Wastewater System

Comparative Statements of Revenues, Expenses and Changes in Retained Earnings

	For the years ended September 30,	2001	2000
			(In thousands)
<i>OPERATING REVENUES:</i>			
Retail	\$	144,801	\$ 152,025
Wholesale		54,075	52,511
Other revenues		7,438	8,010
Total operating revenues		206,314	212,546
<i>OPERATING AND MAINTENANCE EXPENSES:</i>			
Collection system		12,935	11,075
Pumping		20,709	20,148
Treatment		40,707	39,469
Customer accounting		2,406	1,983
Customer service		6,360	5,612
General and administrative		18,043	16,687
Total operating and maintenance expenses		101,160	94,974
Operating income before depreciation		105,154	117,572
<i>DEPRECIATION</i>		78,354	72,638
Operating income		26,800	44,934
<i>NON-OPERATING REVENUES (EXPENSES):</i>			
Interest income		27,673	28,952
Interest expense		(61,357)	(59,732)
Amortization of debt issue costs		(568)	(550)
Operating grants		595	410
Income (loss) before contributions and operating transfers		(6,857)	14,014
Capital contributions		32,375	-
Operating transfers		(17,312)	(15,369)
Net income (loss)		8,206	(1,355)
Depreciation on contributions		25,798	25,420
Increase in retained earnings		34,004	24,065
Retained earnings at beginning of year		381,159	363,228
Transfer from (to) reserves		15,432	(6,134)
Retained earnings at end of year	\$	430,595	\$ 381,159

Wastewater System

Comparative Statements of Cash Flows

For the years ended September 30,	<u>2001</u>	<u>2000</u>
	(In thousands)	
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Cash received from customers	\$ 205,558	\$ 209,745
Cash paid to suppliers for goods and services	(43,194)	(43,003)
Cash paid to employees for services	(56,196)	(51,098)
Transfer from (to) reserves	<u>15,432</u>	<u>(6,134)</u>
Net cash provided by operating activities	<u>121,600</u>	<u>109,510</u>
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</i>		
Operating grants received	-	43
Operating transfers to County's General Fund	<u>(17,312)</u>	<u>(15,369)</u>
Net cash used in non-capital financing activities	<u>(17,312)</u>	<u>(15,326)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>		
Proceeds from bond issues, loan agreements and notes	8,332	11,305
Principal payments - bonds, loans and notes	(20,729)	(20,189)
Interest paid	(65,285)	(66,631)
Proceeds from sale of property, plant and equipment	84	1,213
Acquisition and construction of capital assets	(94,420)	(79,762)
Contributions received	<u>25,192</u>	<u>20,743</u>
Net cash used in capital and related financing activities	<u>(146,826)</u>	<u>(133,321)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchase of investment securities	(825,073)	(626,687)
Proceeds from sale and maturity of investment securities	872,267	602,109
Interest on investments	<u>25,876</u>	<u>28,229</u>
Net cash provided by investing activities	<u>73,070</u>	<u>3,651</u>
Net increase (decrease) in cash and cash equivalents	30,532	(35,486)
Cash and cash equivalents at beginning of year	<u>23,086</u>	<u>58,572</u>
Cash and cash equivalents at end of year	<u>\$ 53,618</u>	<u>\$ 23,086</u>

(Continued)

Wastewater System

Comparative Statements of Cash Flows

(Continued)	For the years ended September 30,	<u>2001</u>	<u>2000</u>
		(In thousands)	
<i>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>			
Operating income		\$ 26,800	\$ 44,934
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		78,354	72,638
Transfer from (to) reserves		15,432	(6,134)
(Increase) decrease in assets:			
Accounts receivable		(450)	(2,211)
Inventory of materials and supplies		257	(185)
Other current assets		-	(1)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		379	913
Customer and developer deposits		(8)	280
Accrued interest payable		5	23
Liability for compensated absences		831	147
Other liabilities		-	(894)
Net cash provided by operating activities		<u>\$ 121,600</u>	<u>\$ 109,510</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of \$7.1 million and \$11.6 million in fiscal years 2001 and 2000, respectively.

The increases in the fair value of investments were \$2.4 million and \$269,153 in fiscal years 2001 and 2000, respectively.

Wastewater System

Schedule of Operating and Maintenance Expenses

Budget and Actual

For the year ended September 30, 2001

(In thousands)

	<u>Budget</u>	<u>Actual</u>	Variance favorable <u>(unfavorable)</u>
Collection system	\$ 16,444	\$ 12,935	\$ 3,509
Pumping	23,502	20,709	2,793
Treatment	43,555	40,707	2,848
Customer accounting	4,284	2,406	1,878
Customer service	6,941	6,360	581
General and administrative	<u>22,174</u>	<u>18,043</u>	<u>4,131</u>
Totals	<u>\$ 116,900</u>	<u>\$ 101,160</u>	<u>\$ 15,740</u>